

# Transparency Report 2016

This report by Scott-Moncrieff has been prepared to meet the requirements of the Statutory Auditors (Transparency) Instrument 2008 for the year ended 30 April 2016.

## **Introduction**

Our Transparency Report will provide you with a straight-forward and open view of what we do, why we do it, how we work and how we develop our people. It underpins the values of our firm and our efforts to sustain our clients, stakeholders and the wider marketplace's trust and continued confidence in Scott-Moncrieff.

We are committed to: conducting our work in an honest, objective and responsible fashion; delivering high quality advice and services to our clients and their stakeholders; and to contribute to the ongoing development of our profession, technical standards and our clients' economic success.

Our robust policies, governance, management and ethical guidelines are complemented by effective quality controls, an ongoing programme of review and risk monitoring and the quality of our partners and staff.

Our people are the foundation of our business reputation. We do not take for granted the trust placed in Scott-Moncrieff by our clients and their stakeholders and we make every effort to ensure that trust in our firm is maintained.

The responsibility for sustaining this trust rests with every individual in our firm and we are committed to continuing to invest in an environment which contributes to our partners' and staff's ongoing development, and independent appraisal, in terms of their technical excellence, professional acumen and their ability to make a difference to their own careers and to the sustainable success of our firm and our clients' businesses and organisations.

All of this runs in parallel with our strategic plan which is based on being trusted and respected throughout the Scottish business community; with a reputation for being entrepreneurial and forward thinking. We want to be recognised for adding real commercial value through the delivery of straight-forward and relevant solutions which recognise and understand our clients' ambitions – in other words, by helping our clients to serve their clients and stakeholders better.

### **Legal structure and ownership**

Scott-Moncrieff ("the Firm") is a Scottish partnership, wholly owned by its partners. At the date of this report, there were 19 partners in the firm.

Our principal services are Audit & Assurance, Business Advisory, Tax, Corporate Finance, Corporate Recovery and Business Technology & Consulting. These service groups have dedicated teams of partners and professional staff in all of our offices, which are located in Edinburgh, Glasgow and Inverness.

### **Network arrangements**

Scott-Moncrieff is an independent member firm of Moore Stephens International Limited, which comprises 300 separate and independent member firms operating locally in countries around the world. Member firms offer assurance, accounting, tax and a range of other international business services across 106 countries through an aggregate of some 657 offices and 27,613 personnel.

Moore Stephens International Limited, a private limited company registered in England & Wales:

- promotes and provides assistance in connection with the development of high common standards, principles, strategies and policies to be applied by member firms;
- works for the uniform application of the standards, principles, strategies and policies including risk and quality standards and compliance with independence processes by all member firms. and
- promotes the Moore Stephens brand

Each member firm of Moore Stephens International Limited is separate and independent from both Moore Stephens International Limited and other member firms. Member firms of Moore Stephens International Limited do not share their respective profits or losses, they are not under common ownership or control, and each member firm appoints its own management. The firm has no related UK firms or overseas branches.

### **Scott-Moncrieff governance**

For the year ended 30 April 2016, the Board was responsible for setting the firm's strategy, providing leadership on quality control and protecting the interests of the partners. It meets monthly.

Scott-Moncrieff's constitution is contained in the Partnership Agreement, which includes the processes for the appointment of the firm's managing partner, who serves a three year term, and the other members of the firm's Board, who also serve three year terms. The Board is chaired by the Managing Partner of the firm.

The Managing Partner is also responsible for the day-to-day management of the firm to ensure that agreed strategy is implemented.

#### Managing Partner

Stewart MacDonald

#### Board

Stewart MacDonald

Nick Bennett

Chris Brown

Bernadette Higgins

Gareth Magee

The Board continuously monitors developments in corporate governance and benchmarks the firm's performance against them. In addition, Scott-Moncrieff embraces best practice in a way that is relevant to its activities, the risk environment it faces and the needs of its clients and people. Detailed policies and procedures to support quality are communicated through our staff guide.

#### **Risk management**

The Board appoints the firm's Risk Monitoring Group, which is responsible for advising on the key risks the firm faces and the effectiveness of the systems to control those risks.

Scott-Moncrieff has identified four principal areas of risk: financial, operational, strategic and professional.

Financial risks include working capital, liquidity and credit risk, which are managed by regular monitoring and review of exposure.

Operational risk is mitigated by a system of formal controls and processes and is backed up by the firm's disaster recovery and business continuity plans. Financial and operational risks are the responsibility of the Managing Partner, operating in conjunction with client service heads.

Strategic risk is monitored through the Board which has overall responsibility for the strategic direction of the business.

Professional risk is the responsibility of individual partners who ensure that the quality, objectivity and independence of client services is maintained. This is done through well-managed client acceptance and engagement procedures, publication of guidance on the conduct of all professional services and the application of rigorous processes to identify and resolve conflicts of interest.

#### **Independence**

All partners and staff are required to submit an annual confirmation of regulatory compliance, which includes statements of independence. The Risk Monitoring Group ensures the firm's compliance with the appropriate external regulations.

As part of his annual "whole firm review," the audit compliance principal reviews the signed confirmations of all partners and staff. In addition, confirmation of independence from an audited entity for all those engaged in the audit is required on an assignment by assignment basis, at both planning and completion stages. A sample of audit files is selected for internal cold review annually and adherence to these procedures is confirmed during this review.

These internal reviews and other monitoring processes therefore provide us with assurance that independence policies are appropriately observed.

During the year ended 30 April 2016 such an internal review was carried out in line with procedures to ensure independence policies were appropriately observed.

#### **Client Service**

The operational activities of the firm are organised and monitored by a board member in each of the four principal areas in which the firm is involved. Each board member serves for a period of 3 years.

The principal areas and board members responsible are:-

<b>Client Service</b>	<b>Service Head</b>
Audit and Assurance	Chris Brown
Business Advisory	Bernadette Higgins
Marketing	Gareth Magee
Practice Management	Nick Bennett

#### **Quality management and technical excellence**

Quality is fundamental in everything we do and the firm is committed to maintaining the highest standards of technical excellence. Each area of the business is required to have in place rigorous quality management procedures to ensure that the required standards of quality (in terms of professional, regulatory and the firm's requirements) are achieved, including:

- technical and procedural manuals to ensure work is delivered to a consistently high standard;
- training and development of all partners and staff (including induction and appraisal);
- quality control procedures to ensure each assignment meets required standards and quality; and
- quality assurance processes, including retrospective reviews to enable management to gain comfort that procedures are in place, are operating and are effective.

As part of the firm's risk management framework, each operating department is required to demonstrate annually the quality management processes in place and, specifically, that if any weaknesses or failures are highlighted in the assurance reviews, appropriate action is taken and improvements monitored.

To measure our performance against the high levels we set ourselves, we assess client service levels by undertaking client satisfaction surveys. The latest set of results show high levels of satisfaction amongst our clients.

### **Audit Engagement performance**

The firm follows the Moore Stephens UK national audit approach to external audit engagements. This approach is set out within the audit manual which is available to all audit staff on the firm's intranet. The approach is built into our automated audit software tool PROaudit. Regular updates to the audit software are received and implemented to ensure continued compliance with auditing standards.

All professional work is supervised by staff members with the appropriate technical knowledge and experience. Review procedures are built into our automated audit software to ensure that:

- all key issues identified at planning and during the audit have been reviewed at manager and partner level;
- the work performed and evidence obtained supports the conclusions reached;
- appropriate consultations have taken place; and
- all completion, review and sign off work is completed prior to the audit opinion being issued.

Our firm promotes a working environment where audit staff are encouraged to consult with their colleagues and other specialists where necessary. The firm's procedures require that an engagement quality control review be carried out on all listed and public interest clients. The engagement quality control review partner will be an experienced audit partner who is independent from the client's audit team.

### **Monitoring**

The firm adopts the "professional standards review process applicable to audit firms" used by all Moore Stephens UK member firms. Each member firm conducts an annual internal cold file review of a sample of audit files. Audit files are selected to cover each audit partner and audit manager and are chosen according to the risk profile of the assignments.

In addition to the internal cold file reviews, the firm is subject to an annual external cold file review process. These reviews are undertaken by two individuals, one an external consultant and the other a member of the Moore Stephens National Technical Committee. An element of the external file review process involves re-performing an internal file review to ensure the firm's own internal review procedures are satisfactory. All files are graded 1 to 4 by the external consultant, who is involved in every review across the network, every year. This approach ensures consistency of grading between offices and over time, and also facilitates identification of any issues related to an individual partner or a whole office and forms a platform for remedial action to be taken, where considered necessary.

The other element of the review consists of a review of the effectiveness of the firm's ISQC1 compliance and monitoring.

The last external review was carried out in June 2015 and the overall grade awarded was an 'A'.

Scott-Moncrieff's audit compliance principal sits on the Moore Stephens National Technical Committee, and participates annually in the external reviews of other firms within the network.

In addition to the firm's overall quality standards, our Corporate & Consulting Services (CCS) group, which includes Corporate Finance and Corporate Recovery, has received ISO9001 accreditation for Quality Management.

#### **KPIs**

At an operational level the firm has adopted key performance indicators which include age of debtors; fee rendering; work-in-progress levels; recoveries against scale charges; and chargeable hours. The performance of all groups, partners and staff is monitored against these.

#### **Ethics**

Professionalism, ethics and independence take precedence over all other aspects of the firm's work. This is reflected in Scott-Moncrieff's commitment to the personal development of staff and is monitored carefully to ensure stringently high standards are met.

For new assignments, a thorough client engagement process is conducted which covers anti-money laundering, ethical issues and other professional risk assessment measures. Similar safeguards apply to ongoing client relationships and all assignments are managed in accordance with well-established internal guidelines.

The firm has a dedicated ethics partner, who provides confidential advice and guidance to other partners and members of staff on professional ethics. Policies meet or exceed the requirements set by the Institute of Chartered Accountants of Scotland, the Auditing Practices Board and the International Federation of Accountants. Induction training for all new partners and staff includes an introduction to our ethical and independence policies. Further training is delivered when rules and policies change.

All personnel are required to consult our database of prohibited investments, which includes details of all publicly traded audit clients, before making personal investments.

In accordance with the Bribery Act 2010 we have developed a firm policy and all staff have been trained on that legislation.

#### **Safeguards**

The firm has in place a range of safeguards governing audit appointments and the independence of partners and staff.

The firm also completes a series of professional checks and assessments on audit clients to ensure ongoing independence.

#### **The regulatory environment**

Scott-Moncrieff is registered to undertake audit work by the Institute of Chartered Accountants of Scotland. Our audit work is examined triennially either by:

- the Monitoring Committee of the Financial Reporting Council (FRC) for public interest audits; or
- ICAS's Audit Monitoring Department for other audits.

The work of the FRC was reorganised on 1 April 2013. Prior to that date the FRC Monitoring Committee carried out all inspections of listed company audits. From 1 April 2013, ICAS's Audit Monitoring Department were responsible for reviewing the work of all firms registered with it who handle 10 or fewer listed company audits. The last examination by ICAS's Audit Monitoring Department which was completed under this responsibility was May 2013. From 1 April 2016 the responsibility for inspection of listed company audits reverted to the FRC.

The last examination by ICAS's Audit Monitoring unit for other audits was completed in April 2016. The Audit Registration Committee of ICAS will consider the outcome of this work in August 2016. The firm is satisfied with the effective functioning of its internal quality control system.

All partners who accept insolvency-related appointments are licensed by one of the Recognised Professional Bodies, which include the ICAEW, ICAS, ICAI, ACCA and IPA, and are subject to regular monitoring reviews by their RPB. All appointment-takers hold current insolvency practitioner licenses issued without conditions or restrictions.

Other services, principally certain corporate finance lead advisory work, are regulated by the Financial Conduct Authority.

The firm is also subject to Practice Assurance Reviews by ICAS which cover client services not otherwise regulated.

Senior management considers recommendations made by regulators and takes action to implement appropriate changes.

#### **Professional liability insurance**

In accordance with the disclosure requirements of the Services Regulations 2009, our professional indemnity insurer is Zurich Insurance plc, of The Zurich Centre, 3000 Parkway Whitely, Fareham, P015 7JZ. The territorial coverage is worldwide (excluding professional business carried out from an office in the United States of America or Canada or territories under their jurisdiction) and excludes any action for a claim brought in any court in the United States of America or Canada or territories under their jurisdiction.

#### **Public Register**

Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number: 2389

#### **Public interest audit clients**

A list of the public interest entities for whom Scott-Moncrieff carried out a statutory audit during the year ended 30 April 2016 is provided in Appendix 1.

### **Human Resources**

The firm has detailed recruitment procedures which are drawn up and compliance - monitored by our HR Department. All staff have detailed job descriptions and undertake grade related training prior to advancing to the next level.

Performance appraisal is carried out continuously during the year by team managers and more formally through the performance development process which involves an annual meeting and 6 monthly follow-up.

When staffing an audit engagement, it is ensured that the staff have the appropriate technical knowledge, training and experience to undertake the engagement.

Staff career development is considered as part of the performance development process. Staff are promoted only when they are prepared for the responsibilities that the next position entails. We continually review our future staffing requirements to ensure that we are best placed to meet our clients' needs.

### **Continuing professional education**

We have created and maintain up to date comprehensive online reference databases and materials including specialist industry materials. These cover all aspects of policy, procedure and methodology as well as containing a complete library of UK and International accounting, auditing and ethical standards. To support and keep theoretical knowledge up to date, all partners and staff eligible for appointment as statutory auditors receive regular communications on technical and regulatory topics as they arise. The Technical Committee provides consultation support on all aspects of auditing, accounting and regulatory requirements including subject matter experts in specialist industries.

The firm's internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. Specialist industries also operate training programmes. Audit partners and staff are required to attend annual technical updates, ethical and money laundering updates. Partners are required to participate in the internal objective setting and related performance appraisal processes. Through this they assess their on-going personal development needs and identify applicable development activities. The firm is an ICAS and ACCA CPD accredited employer.

### **Financial information**

An analysis of the total turnover of Scott-Moncrieff for the financial year ending 30 April 2016 is shown below:

	2016 £m	2015 £m
Statutory Audit and directly related services	6	5
Non-audit services to audit clients	2	2
Services to non-audit clients	<u>4</u>	<u>4</u>
Total turnover	<u>12</u>	<u>11</u>

Non audit services to audit clients principally comprise taxation services.



**Partner remuneration**

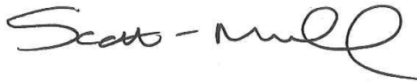
Partners are remunerated solely out of the profits of the firm. The final allocation and distribution of profit to individual partners is made, once their performance has been assessed and the annual financial statements have been approved, by the Remuneration Committee. Each partner's profit share is based on his/her assessed contribution to the firm, responsibilities undertaken, and how he/she has performed over the year. On admission to partnership, partners are salaried, but can earn a bonus based on their contribution to the business. They are required to present a business case to justify progression to equity. Apart from that, there are no semi-fixed "salary" elements or payments based on length of service or seniority. Neither are there any predetermined weightings applied in respect of each element of contributions.

Partners are not remunerated by reference to their success in selling non-audit services to audit clients.

**Publication**

This report can also be found at [www.scott-moncrieff.com/transparency-report](http://www.scott-moncrieff.com/transparency-report).

Approved by the Executive & Strategy Board.

A handwritten signature in black ink that reads "Scott - Moncrieff". The signature is written in a cursive style with a long, sweeping tail on the final letter.

**SCOTT-MONCRIEFF**  
**24 June 2016**

## Appendix 1: Public interest entities

This list includes audit clients who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008 (POB 01/2008), for whom Scott-Moncrieff issued an audit opinion between 1 May 2015 and 30 April 2016. Where an audit client is a parent undertaking the list excludes any of its subsidiaries. The list does not include audit clients listed on AIM.

<b>Name</b>	<b>Listing Status</b>
Mid Wynd International Investment Trust	LSE
SVM UK Emerging Fund plc	LSE